EXPLANATORY MEMORANDUM TO

THE CHILD TRUST FUNDS (AMENDMENT) REGULATIONS 2025

2025 No. 738

1. Introduction

1.1 This explanatory memorandum has been prepared by His Majesty's Revenue and Customs (HMRC) on behalf of His Majesty's Treasury and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 Emma Reynolds MP, Economic Secretary to the Treasury confirms that this Explanatory Memorandum meets the required standard.

2.2 Helen Page, Deputy Director for Pensions, Savings and Charities at HMRC confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Claire Cornell Johnson at HMRC: 03000 200 3300 or email: savings.audit@hmrc.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument makes a minor amendment to the Child Trust Funds Regulations 2004 (the CTF Regulations) to reflect developments in other legislation.

4.2 Qualifying CTF investments include funds which are recognised by the Financial Conduct Authority (FCA). The FCA provided recognition through the Temporary Marketing Permissions Regime (TMPR) and began a transition to the Overseas Fund Regime (OFR) on 1 October 2024 until 31 December 2026. This instrument will amend the CTF Regulations to allow funds recognised under the TMPR and the Overseas Fund Regime (OFR) to continue as qualifying CTF investments during the transitional period providing certainty for investors.

Where does the legislation extend to, and apply?

4.3 The extent of this instrument (that is, the jurisdiction(s) of which the instrument forms part of the law) is the United Kingdom.

4.4 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 A Child Trust Fund (CTF) is a tax-advantaged savings product providing relief from tax to children. The CTF rules, including which investments qualify for inclusion and

the basis on which accounts must operate, are set out in the CTF Regulations. One such rule is that only authorised or recognised funds may be held.

5.2 This instrument amends the CTF Regulations to accommodate an orderly transition of qualifying investments, which are recognised funds moving from the TMPR to the OFR from 1 October 2024 to 31 December 2026. This will provide certainty that any recognised funds that were qualifying investments at the start of the transition period will remain so until 31 December 2026.

What was the previous policy, how is this different?

5.3 The TMPR was put in place after the EU exit to provide recognition for authorised overseas collective investment schemes wishing to market to retail investors in the United Kingdom. The FCA began a transition from the TMPR to the OFR (which is replacing the TMPR) on 1 October 2024 until 31 December 2026.

5.4 During the transition, funds will be given 'landing slots' by the FCA to apply to the OFR, and when each 'landing slot' ends, any fund not recognised under the OFR will not be a recognised fund. It is difficult for consumers to identify which funds are recognised and which are not during this time, without checking the status of each fund on a daily basis.

6. Legislative and Legal Context

How has the law changed?

6.1 Regulation 2 of the CTF Regulations specifies the kind of investments which may be held in a CTF.

6.2 This instrument will amend Regulation 2 to provide that any funds which were qualifying investments as 'recognised funds' within the TMPR at the start of the transitional period, are allowed to remain as CTF qualifying investments until 1 January 2027. This also amends Regulation 2 to require that from 1 January 2027 only recognised funds within the OFR can qualify for a CTF.

Why was this approach taken to change the law?

6.3 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 Policy officials have regular discussions with industry representatives and CTF providers on the operational design of CTFs, potential improvements, and to clarify application of the CTF rules. These discussions have informed the proposed changes following concerns that CTF providers would be unable to identify qualifying recognised funds during the transitional period, potentially resulting in a breach of the CTF rules. Additionally, technical consultation on the draft legislation and the operational consequences of the changes, took place between 4 April and 30 April 2025. Technical comments received in relation to the operation and management of recognised funds have informed the drafting of the amending legislation.

8. Applicable Guidance

8.1 HMRC's Guidance Notes for CTF providers available on the gov.uk website[1] will be amended to reflect the changes to the CTF rules.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument will be published on the gov.uk website[2].

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies. Allowing funds that were recognised funds under the TMPR on 1 October 2024 to remain as qualifying CTF investments until the end of the transitional period to the OFR on 31 December 2026, will provide certainty and stability for CTF providers and consumers.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector because the changes do not affect how businesses interact with HMRC or other public sector bodies.

9.5 There is no, or no significant, impact on the flow or allocation of funds to a CTF.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is that HMRC will continue to review compliance with the CTF Regulations using information provided annually and through regular contact with CTF providers and other groups.

10.2 The instrument does not include a statutory review clause, in line with the requirements of the Small Business, Enterprise and Employment Act 2015, because it amends a provision to vary tax.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

[1] Guidance Notes for CTF providers: https://www.gov.uk/government/publications/child-trust-fund-guidance-notes-for-providers

[2] Tax Information and Impact Note: https://www.gov.uk/government/publications/individual-savings-account-and-child-trust-funds-amendment-regulations-2025

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").